

# **EMPLOYEE PLANS FY 2006 WORK PLAN**

## **Operating Priorities and Program Guidance**



**October 2005**

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# **FY 2006 Employee Plans Work Plan**

## **Executive Summary**

The work plan provides program guidance and direction to all EP employees.

**Section I** provides the eight EP Operating Priorities that support the IRS's Strategic Plan for FY2006-09. The Strategic Plan outlines three strategic goals that guide the future direction of the agency:

- ✓ Improve Taxpayer Service;
- ✓ Enhance Enforcement of the Tax Law; and,
- ✓ Modernize the IRS through its People, Processes and Technology

In support of these goals, EP has committed to the following Operating Priorities:

- **Detect and Deter Abusive Tax Schemes through Accelerated Enforcement Actions and Educational Strategies**
  - EP will continue to take an aggressive stance towards all identified abusive tax avoidance transactions. Examinations are continuing and resolution strategies are being developed for S Corporation ESOPs that violate IRC 409(p), and IRC 412(i) plans that take deductions for excessive insurance.
  - In addition, CE&O will be refining and updating the abusive transaction information on the Retirement Plans web page ([www.irs.gov/ep](http://www.irs.gov/ep)) and the EP Intranet site.
- **Coordinate Information and Processes with DOL and PBGC to Monitor Pension Funding** – plan funding issues continue to be in the news, whether it's the current problems of the airline industry or discussions of potential legislative actions to provide funding relief. We will continue to partner with the PBGC and DOL to discuss information sharing and ideas to improve inter-agency coordination.
- **Expand the Focused Examination Concept to All Examinations, to Focus on Key Examination Activities and Issues** – this initiative is designed to allow agents to more effectively and efficiently perform an audit by focusing on key issues by plan type and industry. Mandatory pre-determined issues will be identified, while still allowing the agent the flexibility of expanding the scope if necessary.
- **Refine Compliance Risk Assessments/Market Segment Analysis and Begin Classifying Examinations Based on this Data** – during the year we will finish the assignment of the examinations needed to complete the risk assessment baseline (approximately 3000 returns). In addition, targeted exams will be conducted in market segments where the baseline data indicated potential non-compliance. The results of these exams will be used to guide the future direction of examination resources.

- **Enhance Enforcement through the EP Compliance Unit** – the EPCU was formed during FY 05 and much of the staffing is now on-board. The EPCU will allow for the resolution of many problems or questionable items without the necessity of an examination. Among the projects to be run through this unit are:
  - Minimum funding compliance checks;
  - EPCRS program resolution compliance checks; and,
  - Form 5330 compliance checks

The EPCU will also be expected to do expert level data analysis to determine appropriate examination strategies and ways to improve the use of existing resources. While this unit will be managed within Examination, the staff will support all of EP.

- **Communicate Enforcement Results to Specific Customer Segments via Educational Events, IRS.GOV and Other EP Outreach Products** – CE&O will use various communication options to market the availability of examination and enforcement content on the newly formatted Retirement Plans Community website at irs.gov. This will include the posting of information on the results of the risk assessment examinations and additional compliance trends and tips. CE&O will also support EP resources in the communication of examination and enforcement content to the public.
- **Work with DOL to Improve Form 5500 Information Processing and Identify Other Sources of Enforcement Information** – Because of the costs associated with the processing of the Form 5500 returns, we will continue to partner with DOL to review the data being requested to determine what information can be eliminated or consolidated. We will also work with DOL on an electronic filing initiative to: decrease processing time frames and cost; reduce the burden on filers; improve compliance; and, enhance public disclosure capabilities.
- **Reduce the Inventory Backlog of Voluntary Compliance Submissions through Improved Work Processes and the Use of Resources throughout Rulings and Agreements** – despite case processing efficiencies and the support from the use of Technical resources, the inventory of VC submissions continues to increase. Work processes will continue to be analyzed to determine where further improvements can be made, and resources from Determinations will also be applied to further support the VC staff.

**Section II** provides the specific program priorities and goals/objectives for each of the three primary program areas: Customer Education & Outreach (CE&O), Rulings & Agreements and Examinations.

## Section I. FY 2006 EP Operating Priorities

Employee Plans shares the IRS's three strategic goals of:

- 1) Improving taxpayer service;
- 2) Enhancing enforcement of the tax law; and
- 3) Modernizing the IRS through its people, processes and technology.

To achieve these goals EP will focus on 8 Operating Priorities:

- Detect and Deter Abusive Tax Schemes through Accelerated Enforcement Actions and Educational Strategies
- Coordinate Information and Processes with DOL and PBGC to Monitor Pension Funding
- Expand the Focused Examination Concept to All Examinations, to Focus on Key Examination Activities and Issues
- Refine Compliance Risk Assessments/Market Segment Analysis and Begin Classifying Examinations Based on this Data
- Enhance Enforcement through the EP Compliance Unit
- Communicate Enforcement Results to Specific Customer Segments via Educational Events, IRS.GOV and Other EP Outreach Products
- Work with DOL to Improve 5500 Information Processing and Identify Other Sources of Enforcement Information
- Reduce the Inventory Backlog of Voluntary Compliance Submissions through Improved Work Processes and the Use of Resources throughout Rulings and Agreements

### □ **Detect and Deter Abusive Tax Schemes through Accelerated Enforcement Actions and Educational Strategies**

#### ▪ **Background**

Abusive tax avoidance transactions (ATAT) involving employee plans continue to be a concern. TE/GE has determined that addressing the abuses involving employee plans is a very high priority, and has identified transactions that take advantage of the tax-exempt status of retirement plans. The two primary transactions are:

- S Corporation ESOPs that violate IRC 409(p), and
- IRC 412(i) plans that take deductions for excessive insurance.

TE/GE has been actively pursuing these abuses in examinations and outreach. TE/GE is also leading cross-divisional Issue Management Teams (IMTs) in an effort to address these abuses through the development of resolution strategies and program guidance. In addition, TE/GE will perform an assessment to determine those areas most vulnerable to fraud and abuse within our customer base, and alert TE/GE customers of fraud and abuse.

#### ▪ **Website**

To inform stakeholders about abuses involving retirement plans, TE/GE has developed both internal and external web sites that discuss the ATAT program. The internal website includes newsletter articles, referral procedures, and training material.

The external web site, [irs.gov](http://irs.gov), provides:

- Information on “listed transactions” in retirement plans, and
- Technical guidance that has been issued to shut down transactions that are deemed abusive.

▪ **Lead EP Offices**

Examinations and CE&O

▪ **EP Office(s) With "Shared" Interest**

Rulings & Agreements: provide technical and actuarial support

▪ **Other Non-EP Offices**

- SB/SE Lead Development Center for Tax Avoidance Transactions
- TE/GE Tax Shelter Group
- TE/GE Counsel: provide continual technical support
- LMSB
- SB/SE

▪ **Prior Strategies/Accomplishments**

During FY 2004 and 2005, substantive technical guidance was issued regarding abusive schemes involving the following:

- S-Corp ESOPs;
- IRC 412(i) plans;
- accelerated 401(k) deductions;
- VEBAs, and
- Roth IRAs.

Training sessions were conducted to inform agents how the abusive transactions work. In FY2005, EP began examining samples of 412(i) plans and S Corporation ESOPs and determined that many were involved in abusive transactions. The examinations have been coordinated with SB/SE, LMSB, and Counsel. A soft contact letter was also developed for 1,700 sponsors of potentially abusive ESOPs, and provided that they should be aware of the findings (i.e., that certain Management Company ESOPs are abusive) and they should take corrective action, if appropriate.

Issue Management Teams (IMTs) were formed to address compliance issues and to develop strategies to resolve the issues. The IMTs include representatives from Chief Counsel and other Operating Divisions.

The IMTs met on an ongoing basis to:

- Develop resolution strategies to ensure that these abusive cases are resolved consistently;
- Determine if additional enforcement strategies for these types of plans are needed, and
- Develop internal guidance to help EP employees identify and develop issues involving these plans.

▪ **FY 2006 Strategies**

- Use IMTs to address the compliance issues involving S-Corp ESOPs and IRC 412(i) plans;
- Continue examining IRC 412(i) plans and S-Corp ESOPs, and coordinate with SB/SE and LMSB on issues that affect the plan sponsor's tax return;
- Develop additional audit tools to be used by EP and SB/SE agents to assist with conducting thorough and accurate examinations, i.e., use of the Form 8886, Reportable Transaction Disclosure Statements;
- Communicate the results of examinations internally via newsletter articles, web postings, and training; externally via speeches, newsletter articles, and web postings;
- Select new cases based on improved case selection techniques and strategies per information learned from prior examinations;
- Develop resolution strategies to address and correct the abuses, and ensure that they can be applied consistently on all cases;
- Develop additional enforcement strategies for these types of plans, including:
  - ✓ Identifying additional sources of information that will focus compliance resources effectively on the most abusive plans;
  - ✓ Examining these abusive plans;
  - ✓ Issuing internal guidance to help EP employees identify and develop issues involving these plans, and
  - ✓ Issuing external guidance to address abuses involving these plans.
- CE&O will:
  - ✓ Develop various outreach initiatives, and
  - ✓ Refine and update the Abusive Transaction information on the Retirement Plans web page ([www.irs.gov/ep](http://www.irs.gov/ep)) and the EP Intranet site.
- Examinations and/or Rulings and Agreements will:
  - ✓ Train specialists to recognize and address tax avoidance transactions, and
  - ✓ Coordinate examination initiatives within TE/GE.
- Coordinate with SB/SE and LMSB on the identification of promoters of these transactions;
- Continue refining internal procedures to encourage front-line employee referrals of potential tax avoidance transactions and indicators of fraud, and
- Provide technical support to LMSB and SB/SE on issues.

□ **Coordinate Information and Processes with DOL and PBGC to Monitor Pension Funding**

▪ **Background**

Defined benefit pension plans are subject to minimum funding standards under the Code. During the 1990s, when the stock market was booming, the plans were well-funded and often no contribution was required by the minimum funding standards. With the stock market drop and the economic downturn in the past few years, an increasing number of plans are underfunded and require substantial contributions to satisfy the minimum funding standards. In addition, the PBGC is running a record deficit and the pension funding problems of corporate America regularly appear in news articles and magazines.

▪ **Lead EP Office**

Rulings & Agreements

▪ **EP Office(s) With "Shared" Interest**

EP Compliance Unit

▪ **Other Non-EP Offices**

PBGC and DOL

▪ **Prior Strategies/Accomplishments**

Funding waiver requests were routinely handled because the annual volume of requests was not burdensome. Coordination with PBGC occurred on waivers involving waivers of \$1 million or greater. In addition, plan sponsors with funding deficiencies reported on Form 5500 were contacted to request an explanation and/or resolution of the funding deficiency. During FY 2005 the DOL, PBGC and IRS held a Pension Funding Summit to discuss information sharing and ideas to improve coordination between the agencies. A Memo of Understanding (MOU) between the PBGC and IRS is being circulated concerning the procedures for processing waivers of the minimum funding standard. An MOU is also being circulated between DOL and IRS concerning the referral by IRS to DOL for enforcement of participation, vesting, or funding violations upon request by IRS.

▪ **FY 2006 Strategies**

The increased funding required for defined benefit plans raises concerns for companies and the Service. In the face of these events, the Service will expand its scrutiny of those plans that are not complying with the minimum funding requirements.

- The EP Compliance Unit will review all waiver letters to confirm that all conditions on waivers have been met and, in instances where they have defaulted, an excise tax will be assessed;
- Implementing the MOUs, and refining the process for sharing information and processing waiver applications to assist in providing information on companies in precarious financial condition. The PBGC has an early warning system, with respect to troubled companies, that provides information substantially in advance of the filing of the Form 5500. Consultation with the



PBGC can provide information allowing for appropriate action at an earlier staged;

- Undertaking a review of the information reported on Schedule B of Form 5500 to ensure that the information received is useful to our regulatory and enforcement responsibilities. That, and our analysis of the Funding Deficiency table on RICS, will be shared with PBGC to provide a more complete picture of the defined benefit universe. We will coordinate with the DOL on enforcement action to compel compliance with the minimum funding standards. The information is then provided to the PBGC on waivers of over \$1 million.
- Action will also be taken to timely react to any legislation that impacts pension plan funding.

□ **Expand the Focused Examination Concept to all Examinations, to Focus on Key Examination Activities and Issues**

▪ **Background**

The previous philosophy of Examinations stressed the importance of a comprehensive approach to examining employee plans. In contrast, the primary objective of the focused examination initiative is to utilize a process that focuses on key issues based on plan type and industry. This allows agents to more effectively and efficiently perform an audit.

Focused techniques are characterized by several key concepts and examination activities:

- Cases are assigned with the expectation that the audit will primarily be focused on the three mandatory pre-determined issues.
- The agent takes the following actions:
  - ✓ Performs a comprehensive pre-audit analysis selecting two additional issues,
  - ✓ Solicits only documents required to resolve known issues,
  - ✓ Uses effective interview techniques,
  - ✓ Evaluates a taxpayer's system of internal controls,
  - ✓ Expands the audit scope based on facts and circumstances, and
  - ✓ Closes the case as soon as the known issues are resolved.

This approach will increase examination coverage and allow agents to work more productively. The agent will determine the compliance level of the taxpayer by conducting an opening interview, reviewing internal controls and examining a few key issues. At that point, the agent will decide to either expand or close the examination.

This approach will also save compliant taxpayers time and money. In addition, agents will spend less time on examinations, which will allow closing letters to be issued earlier. Examinations will focus on issues identified using historical data by plan type, industry type and local knowledge. Using this method, agents can still perform a quality examination, determine if the issues warrant further investigation, and close the case in a timelier manner.

▪ **Lead EP Office**

Examination Planning & Programs (EP&P)

- **EP Office(s) With "Shared" Interest**

Director, EP Examinations  
EP Examinations Area Offices

- **Prior Strategies/Accomplishments**

Beginning in February 2004 and continuing through July 2005, a pilot program was held for examinations using focused audit techniques. One day training on the techniques was provided to thirty-seven agents in four EP groups. Cases were then selected from five specific risk assessment segments and were assigned to these agents. The market segments used were:

- Health Care Defined Benefit
- Manufacturing Money Purchase
- Other Services Profit Sharing
- Construction Defined Benefit
- Finance and Insurance 401(k)

Concurrently with the pilot, returns from the same market segments were assigned to other EP groups throughout the nation as a control group. There were three differences between these control assignments and the focused examinations. In the control group:

- Agents were from all geographical locations,
- No up-front agent training was provided, and
- No mandatory issues were identified before the cases were assigned.

At the conclusion of the pilot in July 2005, approximately 2,074 closed focused and control examinations had been worked during the pilot period. In the same time period as the pilot program, 10,283 other examinations were closed by EP Examiners.

The average time per case using focused techniques was 21% lower than the control exams, and cycle time was 27% lower than the control examination's time. Focused examination no-change cases had 31% less time applied and 31% fewer cycle days than the control no-change cases.

Focused examinations were completed with 39% fewer hours than the general program examinations, and in 42% fewer cycle days. Focused examination no-change cases were handled in 39% less time than general program no-change cases, with 41% fewer cycle days than general program no-change cases.

- **FY 2006 Strategies**

The Focused Examination Program will be rolled out to all EP examiners during the FY 2006. The program will have several important steps during the fiscal year:

- Provide all examiners training in the concepts and techniques that will be used in the focused audit process (1<sup>st</sup> quarter),
- Develop strategies to select productive cases that can be audited and are a good fit for the program,
- Implement focused examinations for all cases started after completion of training,
- Institute methods that will find specific issues for cases by either plan or industry type, and
- Analyze the results of cases worked to determine improvement opportunities.

□ **Refine Compliance Risk Assessments/Market Segment Analysis and Begin Classifying Examinations Based on this Data**

▪ **Background**

The customer population was divided into the major business segments listed in the instructions for the Form 5500. Each business segment was further broken down into market segments based on plan types. Using RICS to analyze exam data over the past 10 years, ratings were assigned to each market segment for:

- *Risk Assessment* (an estimate of the consequences if we do not perform examinations in a segment) and
- *Risk Reliability* (a measure of how much we know).

During FY 2004, the program's assumptions and sample sizes were reassessed. The number of market segments was reduced from 205 to 79. This increased efficiency and the timeliness of quality data collection. Examinations have been assigned in 77 of the 79 segments. Current examination results will create baseline compliance levels for each market segment. Ultimately, the risk assessment will focus compliance and outreach activities in the less compliant market segments.

The *Risk Assessment* process is designed to:

- Improve the use of resources,
- Lead to more productive examinations,
- Increase employee satisfaction by assigning better quality cases, and
- Improve customer satisfaction by reducing examinations of compliant plans.

▪ **Lead EP Office**

Examination Planning & Programs (EP&P)

▪ **EP Office(s) With "Shared" Interest**

EP Examinations Area Offices  
CE&O

▪ **Other Non-EP Offices**

TE/GE Office of Research & Analysis  
Department of Labor

▪ **Prior Strategies/Accomplishments**

In FY 2005, EPP completed the summary and analysis of 20 of the 79 market segments. The results to date have identified some specific areas of significant noncompliance. Follow-up in these areas will occur in FY 2006.

▪ **FY 2006 Strategies**

During FY2006, the following three priorities for the EP Examinations Risk Assessment Program will be emphasized:

- 1) Finish the assignment of examinations needed to complete the Risk Assessment Baseline (about 3,000 examinations);
- 2) Perform targeted examinations in 13 of the 20 closed segments, and
- 3) Resample 6 segments to achieve more diverse results.

One large industry segment, the Wholesale Industry, will be a primary focus for targeted compliance. Baseline data for the three plan types completed in this industry reflected potentially significant non-compliance in 12 business codes. All business codes in the Wholesale Industry will be targeted.

Other areas to be targeted as a result of potentially significant non-compliance trends are:

Industry	Plan Type	Business Segments
Retail Industry	Defined Benefit, Money Purchase	Hardware, Supermarkets, Drug Stores, and Jewelry Stores
Other Services	Money Purchase	Repair and Maintenance, including Automotive Repair.
Manufacturing	Profit Sharing	Other Wood Products and Printing and Related Support.
Finance and Insurance	Money Purchase, Profit Sharing, IRC 401k Plans	All Insurance businesses, and selected Banking businesses
Construction	Profit Sharing	Plumbing, Heating, and AC Contractors
Real Estate	Defined Benefit	Real Estate Property Managers

An analysis of all 79 market segments should be completed by the end of FY 2007. During FY 2006, we expect to have enough information to complete the summary and analysis on an additional 20 market segments. Results for 40 of the 79 market segments should be available by the end of FY 2006.

After analyzing the closed examination data, the future direction of examination resources will be determined. We have identified noncompliance within a number of the twenty segments closed to date. EP&P will be working with Classification to do targeted follow-up examinations on specific non-compliant areas in these segments.

Examination findings will be shared throughout EP. We will continue refining and updating the risk assessment design and long-term plan. As market segments are closed, the findings will continue to be shared with CE&O, to be posted on the Retirement Plans web page ([www.irs.gov/ep](http://www.irs.gov/ep)).

FY 2007 selections and beyond will be made based on the long-term plan. This includes:

- Completing examinations in those segments where a sufficient number of examinations has not been completed;
- Determining appropriate follow-up actions in noncompliant segments, and
- Initiating a focused examination program based on criteria which was tested in a pilot program. Limited pre-selected issues will be identified and addressed in the examination.

❑ **Enhance Enforcement through the EP Compliance Unit (EPCU)**

▪ **Background**

Since FY 1990, there has been a continuing decline in the level of audit coverage, defined as the number of examinations initiated versus the number of customers in the employee plans universe.

Many problems or questionable items can be resolved without the necessity of an examination of the books and records of the plan. These issues can be resolved through compliance checks, correspondence audits and other “soft contact” approaches rather than a field office examination.

The EPCU has been designed to address these issues. The unit stood up in FY 2005 and is in the process of being staffed. It is managed from Chicago, and its staff is de-centralized. Authorized staffing includes a computer research analyst, revenue agents, and paraprofessionals.

▪ **Lead EP Office**

Examinations

▪ **EP Office(s) With "Shared" Interest**

Rulings and Agreements

CE&O

Ogden campus

▪ **Other Non-EP Offices**

DOL

PBGC

▪ **Prior Strategies/Accomplishments**

Many anticipated EPCU activities have been previously assigned to units throughout Examinations. Centralization in the EPCU will result in telephone and mail contact with taxpayers instead of audits. This “soft-contact” approach is less burdensome to customers and allows for an increased number of contacts on questionable items from the Form 5500 return.

▪ **FY 2006 Strategies**

Examinations, with input from R&A, is continuing to define EPCU's responsibilities. EPCU will do expert-level data analysis to determine appropriate examination strategies and ways to use existing resources. EPCU's staff will also assist field agents in specialized examination categories.

Projects will be gradually phased in as EPCU develops. Some examples of the EPCU's planned activities are listed below. It must be emphasized that this is a **tentative** listing.

- **Minimum funding compliance checks** – This requires analysis of filed returns which have identified a funding deficiency. EPCU will generate a compliance letter, requesting funding verification or the filing of an excise tax return. Depending upon the response, a correspondence examination or a field examination may be warranted. This activity also helps develop

improved examination projects by limiting unproductive audits. In addition, other programs are being considered to track underfunded pension plans before filing requirements, such as missed contributions.

- **EPCRS program resolution compliance checks** – This ensures that resolutions agreed to during the EPCRS process were properly completed. Important trend information from EPCRS would also help create and define projects or programs for correspondence or field examinations.
- **Form 5330 examinations/compliance checks** – The Unit will conduct Examinations/Compliance Checks of Forms 5330. It will initially focus on Prohibited Transitions, with subsequent involvement in other excise taxes. EPCU will identify any trends and analyze the results in this area.
- **Participant protection project** - As additional staff is brought on-board EPCU will identify projects associated with protecting participants. This is a broad area that is associated with the strategic goals of TE/GE.
- **Third party administrator project** – The EPCU will investigate and perform initial data analysis to identify potential abuses and areas of poor plan administration, to help ensure that participants' plan benefits are accurately protected. The Unit will analyze data to identify schemes, plan neglect, lack of proper administration, or other trends.

□ **Communicate Enforcement Results to Specific Customer Segments via Educational Events, IRS.GOV and Other EP Outreach Products**

▪ **Background**

There are three primary customer segments relating to retirement plans:

- Benefits Practitioner
- Plan Sponsor/Employer
- Plan Participant/Employee

Historically content on the Retirement Plans Community web page ([www.irs.gov/ep](http://www.irs.gov/ep)) has been focused on the Benefits Practitioner customer segment. In FY 02, CE&O introduced the "Retirement Plan Life Cycle" campaign primarily to assist small businesses understand the benefits and responsibilities of retirement plans. This campaign has developed significant content for the Plan Sponsor/Employer customer segment. To assist Plan Sponsors/Employers in finding their web content, the "Retirement Source for Plan Sponsors/Employers" index was added in May 2004 to the Retirement Plans web page.

▪ **Lead EP Office**  
CE&O

▪ **EP Office(s) With "Shared" Interest**

Examinations support this operating priority by developing content on the results of examinations/enforcement activities. Examinations, along with R&A employees, will have a significant role in communicating the results via direct contact with customers at customer educational events and one-on-one customer contacts (i.e., working cases).

- **Other Non-EP Offices**  
DOL and the Small Business/Self-Employed (SB/SE) Operating Division will provide support in communicating the results via their communication options.
- **Prior Strategies/Accomplishments**
  - December 2004 - Retirement Plans Community web page was modified to allow customers to find information for their specific segment. Two outreach projects were started to redraft benefits practitioner segment content for use by Plan Sponsor/Employer and Plan Participant/Employee.
  - February 2005 - Special edition of the *Employee Plans News* shared with EP customers regarding key points made by the TE/GE Commissioner (delivered before the Los Angeles Benefits Conference on January 28, 2005) about EP's Invigorated Enforcement Program. He stated that EP must rebalance its efforts with the goal of establishing a prominent IRS enforcement presence in the benefits community.
  - April 2005 - Redrafted web content for the Plan Sponsor/Employer customer segment was completed. With its posting, the "Retirement Source for Plan Sponsors/Employers" index was discontinued on the web page.
  - Summer 2005 editions of the *Employee Plans News* and *Retirement News for Employers* - inaugurated a new regular column for direct communication by the EP Examinations Director called "Critical FewPoints...by Michael Julianelle". This column provides a regular viewpoint of the "Critical FewPoints" that are vital to the success of EP Examinations and TE/GE as a whole. "Critical FewPoints" are the activities that EP has prioritized in terms of resources and attention in order to maintain a strong and vibrant Examinations program which is vital in combating non-compliance. One activity is expanded compliance contacts along with continued efforts on uncovering tax abuses within the retirement plans community.
  - June 2005 - The Retirement Plans Community web page was further enhanced to reflect a new "3 tier" landing page with the 1st tier reflecting the latest breaking retirement plans news/information. EP's goal is to make the Retirement Plans Community Landing Page more "newsy" in style and therefore to be the one place on the IRS.GOV for customers to find all retirement plans news/information issued by either the IRS or Treasury.
  - September 2005 - Implement reformatted, refreshed "Examination" topics on the Retirement Plans Community web page plus posted available examination/enforcement content on the web page (i.e., EP Compliance Risk Assessments and Compliance Trends & Tips).
- **FY 2006 Strategies**
  - Beginning in October 2005, formally announce to the retirement plans community the availability of EP examination/enforcement content and how to locate it on the Retirement Plans Community web page.
  - Post results from all completed Compliance Risk Assessments and additional Compliance Trends and Tips (i.e., results from recently completed SIMPLE IRA examinations).

- Develop new and maintain existing national relationships with EP customer organizations/stakeholders especially to partner on examination/ enforcement activities.
- Increase “Targeted Customer Education” based on available content and identified audiences.
- Assist EP employees in communicating examination/enforcement content via one-on-one contacts with taxpayers and via customer educational events (i.e., speeches, benefits conferences) by providing tools such as EP examination/ enforcement talking points, sample PowerPoint presentations, and EP examination/enforcement commercials for technical presentations. CENTRA sessions with CE&O Cadre members are planned to support EP employees deliver customer education. One goal is to maximize delivery time without increasing overall CE&O time by reducing preparation and participation time. This support includes the use of an enhanced EP Speakers Resource Library/Employee Plans Events Calendar (both available on the EP INTRANET).

❑ **Work with DOL to Improve 5500 Information Processing and Identify Other Sources of Enforcement Information**

▪ **Background**

ERISA and the Internal Revenue Code, requires certain employee benefit plans to submit information annually to the federal government. Four partner agencies [the DOL’s Employee Benefits Security Administration (EBSA), the IRS, the PBGC, and the Social Security Administration (SSA)] rely on data from Form 5500 filings to perform mission-critical functions such as detecting pension plan fraud, monitoring plan solvency, and ensuring that plan participants receive promised benefits. Paper processing and dissemination of data to end users under EFAST takes an average of 8 months from the filing receipt date through distribution of the Form 5500 filing data to government users. In addition, technological obstacles and filer error in the current paper-based system limit data accuracy, necessitating time-consuming and costly data correction efforts. Limitations on data accuracy, timeliness, and accessibility cannot be resolved within the limits of EFAST. The impact of these limitations on the government is growing in severity even as the public focuses increasing attention on employee benefit plans and associated public policy challenges.

▪ **Lead EP Office**

Director, Employee Plans

▪ **EP Office(s) With "Shared" Interest**

R&A; Examinations; and Business Systems Planning

▪ **Other Non-EP Offices**

IRS MITS and Business Systems Modernization Office; IRS Operating Divisions; EBSA; PBGC; and the SSA



- **Prior Strategies/Accomplishments**

The agencies have designed a computer system, the ERISA Filing Acceptance System II (EFAST2), to improve the government's ability to manage the increasing demands of this significant public policy area by decreasing the filing processing time cycle, reducing filer effort, improving compliance with ERISA, and enhancing public disclosure capabilities. In addition, IRS produced a study to determine other means of extracting pension information from current IRS forms.

- **FY 2006 Strategies**

The partnering agencies have collaborated to document the business case for a multi-agency Information Technology (IT) investment initiative to accept and process electronically filed Form 5500 series filings transmitted securely via the Internet. In FY 2006, EP will:

- Modify and reduce the data required via the Form 5500;
- Develop an alternative strategy for processing Form 5500EZ, and
- Coordinate with DOL to implement the E-File initiative.

- **Reduce the Inventory Backlog of Voluntary Compliance Submissions through Improved Work Processes and the Use of Resources throughout Rulings and Agreements**

- **Background**

The Employee Plans Compliance Resolution System (EPCRS) provides a comprehensive system of correction programs that permit plan sponsors to correct failures in qualified plans, tax sheltered annuities, etc. Customer demand has grown for these programs over the years, exceeding current Voluntary Compliance staffing capabilities. In addition, many submissions have related determination letter applications.

- **Lead EP Office**

Voluntary Compliance

- **EP Office(s) With "Shared" Interest**

Rulings and Agreements

- **Prior Strategies/Accomplishments**

Resources from other Rulings and Agreements functions were applied but increased demand continues to impact inventory levels.

- **FY 2006 Strategies**

To address concerns, resources from other R&A functions will be applied to assist in reducing open case inventory. In addition, streamlined case processing procedures will continue to be implemented to increase the number of closures. Their effectiveness will be analyzed to determine whether further enhancements can be instituted. The provisions of the updated EPCRS Rev. Proc. will also be implemented.

## Section II. Program Guidance

### ***Customer Education & Outreach Program Guidance***

#### **OVERVIEW**

Customer Education & Outreach (CE&O) assists three primary customer segments (Benefits Practitioners, Plan Sponsors/Employers and Plan Participants/Employees) to understand the benefits and responsibilities of establishing and operating retirement plans.

For FY 06, CE&O's primary focus is the operating priority to Communicate Enforcement Results to Specific Customer Segments via Educational Events, IRS.GOV and Other EP Outreach Products. This priority includes the continuation of communication efforts to counter Abusive Tax Avoidance Transactions involving retirement plans. Additionally, to further complement the operating priority, CE&O will continue to increase retirement plan information on IRS.GOV, especially for Plan Sponsors/Employers and Plan Participants/Employees.

CE & O will use various communication options to achieve this operating priority such as:

- Speeches, benefits conferences, webcast and public TV programs. **(Direct Contact with Customers)**
- Outreach products such as publications; electronic newsletters – *Employee Plans News* and *Retirement News for Employers*, and primarily the Retirement Plans Community web page [www.irs.gov/ep](http://www.irs.gov/ep). **(Indirect Contact with Customers)**
- Communication options of internal and external stakeholders/partners.

CE&O will continue to market developed “*Check-Ups*” for IRA-based retirement plans, a three-step approach in helping employers properly operate a retirement plan:

- (1) **Tools** - use of a checklist highlighting some of the basic requirements for operating a specific type of retirement plan. Each checklist addresses some of the most common problems as seen in the Examinations and Voluntary Compliance programs. Use of the checklist is voluntary and it is not sent back to the IRS. An explanation of each checklist question is posted on [www.irs.gov/ep](http://www.irs.gov/ep)
- (2) **Tips/Resources** – for operating a retirement plan such as EP Compliance Trends & Tips.
- (3) **Help** – through IRS Correction Programs. After reviewing the plan and completing the appropriate checklist, a Plan Sponsor/Employer may find an error in the plan's operation and may correct the error using one of the correction programs under the Employee Plans Compliance Resolution System (EPCRS) such as the Self Correction Program or Voluntary Correction Program.

Note: Further information on “Check-Up” is available at [www.irs.gov/ep](http://www.irs.gov/ep) and detailed in Publication 4405, "Have You Had Your Check-up This Year?...for Your SIMPLE IRAs, SEPs, or Similar Retirement Plans".

### **Summary of Performance Measures**

The following performance measures will be used in FY 06 for assessing CE&O activities:

<b>Employee Plans</b>	<b>FY 2005 Actual – August</b>	<b>FY 2006 Goal</b>
Number of Outreach Efforts	305	315
Customers Reached	121,528	130,000

27 FTEs are planned for CE&O activities in FY 06. This includes resources from both Exam and R&A that support CE&O.

## **GOALS and OBJECTIVES**

### **Customer Satisfaction**

#### **➤ Customer Education Program (Direct Contact)**

CE & O will specifically:

- **Partner with DOL and SB/SE** to educate small business customers;
- Work with **IRC 403(b)/457** and **IRC 401(k)** Compliance Planning Groups to increase education to customers;
- Work with **Voluntary Compliance** staff in encouraging plan sponsors to conduct self-audits and correct any “plan mistake”. The “Check-Up” products are helpful resource tools to assist employers to identify “plan mistakes”;
- Support **2006 IRS Nationwide Tax Forums**;
- Maintain **EP Speaker’s Resource Library** (IRS INTRANET) and continue encouraging use by IRS employees of the library’s content in their delivery of customer education;
- Distribute monthly “Employee Plans CE&O Talking Points” to all EP employees, DOL and SB/SE points of contact for their use at customer educational events or during customer meetings;
- Support EP and TE/GE cross-functional exhibit display booths. The key message for EP exhibiting is “Partnering to Protect Retirement Benefits”;
- Identify new customer education opportunities involving alternate delivery options such as web cast and Public TV programs, and
- Co-sponsor **EP Benefits Conferences** in accordance with established “Best Practices”. These conferences include the following:

#### **Spring EP Benefits Conference Season:**

- Great Lakes Benefits Conference
- Mid-Atlantic Benefits Conference
- Northeast Benefits Conference

- Cincinnati Employee Benefits Conference
- Fall/Winter EP Benefits Conference Season:
- Central & Mountain States Benefits Conference
- SWBA/IRS Employee Benefits Conference
- Los Angeles Benefits Conference

➤ **Outreach (Indirect Contact)**

CE & O will specifically use the following communications options to achieve its operating priority:

- **Employee Plans News** – Geared toward the Benefits Practitioner customer segment with four planned seasonal editions plus periodic special editions and News Flashes, as warranted.
- **Retirement News for Employers** – Designed for the Plan Sponsor/ Employer customer segment with four planned seasonal editions. Plus, periodic articles marketing flyers/bulletins for communicating with the Plan Participant/Employee customer segment.

**Note:** Free subscriptions for both the *Employee Plans News* and *Retirement News for Employers* are available at [www.irs.gov/ep](http://www.irs.gov/ep).

- **Forms/Publications** – Existing forms/publications will be maintained. New publications will be developed to package examination/enforcement results for use by specific customer segments. A model for such publications is the Publication 4407, *SARSEP – Key Issues and Assistance*. Further, via earlier noted CE&O projects, develop a series of pamphlets on “How do I...?” for the Plan Sponsor/Employer customer segment and “When can I...?” for the Plan Participant/ Employee customer segment.
- **Intranet/Internet** – In coordination with other IRS offices, timely develop and post information to the Retirement Plans Community web page and IRS INTRANET web site. Marketing of educational information available on the Retirement Plans Community web page will continue. Maintain on-line resource guides such as:
  - EP Examination Process Guide
  - EP Determinations Process Guide
  - 401(k) Guides for Sponsors and Participants
  - Retirement Plans Correction Programs Guide
  - IRA Resource Guide
- **Products (Electronic) Development** - Further marketing will occur on the Updated 2005 Retirement Plan Correction Programs CD-ROM, Small Business Tax Workshop DVD, and IRA Resource Guide CD-ROM. No new electronic products are planned except the annual update for the Small Business Resource Guide 2006 CD-ROM.

The following CE&O projects will be applicable in FY 06 to achieve the goals/ objectives of the operating priority:

<b>Project Name</b>	<b>Continuing from FY 2005 or New for FY 2006</b>	<b>Project Description</b>
Public TV Access Project	Continuing	Develop and deliver Public TV Access programs in various markets with titles such as "Retirement Arrangements for Public Schools Teachers"
Webcast Access Project	Continuing	Develop and deliver presentations using external customers webcast opportunities to present "EP Critical FewPoints" reflecting examination/enforcement results.
Check-Up (Qualified Plans) Project	Continuing	Develop and market new "Check-Up" products relating to 401(k), 403(b) and 457 plans. Significant development work on the 401(k) "Check-Up" occurred in FY 05.
IRA-Based Plans Correction Examples Project	Continuing	For each question on the checklists relating to the "Check-Ups" for IRA-based retirement plans, examples will be posted on the web page on how to correct applicable plan mistakes.
401(k) Plans Correction Examples Project	Continuing	For each question on the checklists relating to the "Check-Ups" for 401(k) plans, examples will be posted on the web page on how to correct applicable plan mistakes.
403(b) Plans for Public or Tax-Exempt Employers Project	Continuing	Develop and market a comprehensive publication on establishing and operating 403(b) plans.
403(b) Plans Correction Examples Project	Continuing	For each question on the checklists relating to the "Check-Ups" for 403(b) plans, examples will be posted on the web page on how to correct applicable plan mistakes.
457 Plans for Public or Tax-Exempt Employers Project	Continuing	Develop and market a comprehensive publication on establishing and operating 457 plans.
457 Plans Correction Examples Project	Continuing	For each question on the checklists relating to the "Check-Ups" for 457 plans, examples will be posted on the web page on how to correct applicable plan mistakes.
Plan Participant/Employee Web Content Redraft Project	Continuing	Develop and post content to "Information for...Plan Participant/Employee" on the web page based on redrafting parallel content on "Information for...Plan Sponsor/Employer".
"How Do I..." Project	Continuing	Develop and market a series of pamphlets on "How do I...?" for the Plan Sponsor/Employer customer segment. For example, "How do I distribute participant account balances?"
2006 Tax Forum Presentations Development Project	New	Develop and deliver presentations (handbook pages, PowerPoint slides and talking points) for the 2006 IRS Nationwide Tax Forums (scheduled for Summer 2006).
"When Can I..." Project	New	Develop and market a series of pamphlets on "When can I...?" for the Plan Participant/Employee customer segment. For example,

		"When can I get my account balance?"
Plan Administrator Workshops Project	New	Explore options for delivering Plan Administrator Workshops nationally in co-sponsorship with external partners/ stakeholders.
CENTRA Sessions Project	New	Develop and deliver information on new available examination/enforcement content and skills/tools for use by EP employees involved in customer education (CE&O Cadre members) via CENTRA sessions.

# ***Rulings & Agreements Program Guidance***

## **OVERVIEW**

Rulings & Agreements (R&A) will focus on ensuring plan sponsors' compliance by offering up-front programs to achieve the following objectives:

- Issuing timely and accurate determination and opinion letters;
- Providing easily accessible, consistent and equitable voluntary compliance programs;
- Issuing timely and accurate private letter & actuarial rulings, and
- Publishing technical and procedural guidance for both internal and external stakeholders.

## **DETERMINATION PROGRAM**

In February 2005, the separate Master & Prototype and Volume Submitter programs were merged into one Pre-Approved Plan program and the EGTRRA submission period for opinion/advisory letters was opened. It is anticipated that approximately 15,000 – 16,000 defined contribution (DC) pre-approved plan applications will be received by January 31, 2006. All opinion/advisory letters will be issued on or about January 31, 2008.

The EGTRRA determination letter program for individually designed plans was opened in June 2005. Receipt of Form 5300 applications for the EGTRRA program should begin during the last quarter of FY06. Rev. Proc. 2005-66 was issued September 12, 2005, finalizing the future of the determination letter program and pre-approved plans through a staggered remedial amendment period system.

The following charts lists key dates for submissions with respect to the opening of the EGTRRA program.

PLAN TYPE	OPEN DATE	CLOSE DATE
DC Mass Submitter Lead Plans	2/1/05	1/31/06
DC Volume Submitter and M&P Lead Plans	2/1/05	1/31/06
DC Individually Designed Plans – Cycle A	2/1/06	1/31/07

## **Voluntary Compliance & CAS Assistance**

Determinations will provide specialists for a period of 6 months to assist with the Voluntary Compliance Program backlog. A portion of Determinations resources will also be devoted to handling correspondence that was previously worked by Customer Accounts Services.

## **Training**

The Determinations' staff, in conjunction with Voluntary Compliance and Technical, is tentatively planning to hold their CPE session during the 3<sup>rd</sup> or 4<sup>th</sup> quarter of FY 2006. Key topics will potentially include:

- EGTRRA,
- Determination Processing,
- 401(k)/(m) Final Regulations,
- Staggered Remedial Amendment Period,
- 401(a)(9) for DB & DC plans, and
- Miscellaneous Plan Types (Orphan plans, DROP plans, Leave Conversion plans, Indian Tribal plans, etc).

Determinations will continue to offer Phase II and Phase III training to newly promoted Grade 12 and Grade 13 specialists, respectively.

During FY05, Determinations provided 14 instructors and 8 On-the-Job Instructors to assist with the training needs of the new revenue agents hired for EP Examinations. The On-the-Job Training will continue during the 1<sup>st</sup> quarter of FY06 with 9 On-the-Job Instructors from EP Determinations devoting almost 100% of their time to the training initiative.

### **Special Project Teams**

During FY05, Determinations formed two teams of managers and bargaining unit employees to analyze methods for improving business processes. During FY06, these teams will continue to meet.

- A Determination Letter Quality Project team will study the determination letter caveat requirements and identify/propose needed changes in order to facilitate an increase in the quality of determination letters that are issued.
- An EGTRRA Application Review Standards Project team will study the current technical screening and regular determination standards and develop recommendations for procedural changes that will better balance the need to exercise appropriate business risk while still maintaining a technically sound review process.

Determinations has also encouraged higher grade specialists to create a Determinations Technical Roundtable that will meet on a monthly basis to discuss complex issues they have encountered in the review of applications. They will attempt to reach consensus on how to resolve those issues, and will present their proposed solutions to management in order to establish consistent nationwide policy.

### **TEDS Project**

The Tax Exempt Determination System (TEDS) project will require at least 4 employees to devote 100% of their direct time during FY06 to continued development, testing and deployment of the new TEDS system. The deployment is planned in 6 phases of releases (scheduled to begin early in the fiscal year with the total retirement of EDS by the end of the year). Each phase requires a substantial amount of specialist time for requirements documentation, contractor guidance, and System Acceptability Testing (SAT). These employees will also assist in the development of training on TEDS tentatively scheduled for delivery in FY07.

In addition, it is planned that employee briefings on the pending TEDS roll-out will be conducted during the last quarter of FY07 in each location where a high concentration of EP Determination Specialists are located.



### **Technical Screening**

Technical Screening continues to provide alerts/guidance to determination specialists on potential practitioner abuses, plan trends and/or qualification issues. The Technical Screening Roundtable team is working to refine the screening handbook to contain a consistent set of screening procedures. Another team has been established to review current technical requirements and recommend revisions for screening EGTTRA cases. The Technical Screening Manager is leading a team of specialists who are working to revise current EP forms and develop new forms necessary for law changes. The team is also ensuring that the revised documents meet the scanning requirements of the TEDS system.

After completion of a TIGTA audit, new procedures were set into place to gather error trends from peer review of screening cases each month. These trends will be used to provide focused training to assist in raising the level of quality of the determination letters.

The TIGTA audit also provided a recommendation to secure a cycle time report for Status 09 (Merit Closure with Contact) cases. This report has been created and cycle time is now analyzed on a monthly basis.

### **Quality Assurance**

The Determinations Quality Assurance Staff (QAS) will analyze data collected under TEQMS to ensure consistency of determination work. QAS will work with the groups in Determinations in an ongoing effort to improve the quality of determination letters. In addition to peer review of merit closures and managerial review of regular determination cases in the groups, QAS will provide feedback to specialists on letter corrections and quarterly reports to the managers and Area managers. This feedback will be monitored for any error trends and managers informed accordingly.

QAS will also provide for Group Tour visitations to each group to review cases and provide feedback, answer questions and to provide workshops on various topics. The "Ask the Reviewer" button will continue to be used as a tool for Determination specialists to receive answers to their questions.

QAS will continue to take an active role in providing internal guidance to enhance consistency by issuing Quality Assurance Bulletins, Recurring Issue Reports and technical and procedural alerts. In addition, QAS will conduct mandatory review of all closed cases that have an EGTRRA ruling to provide feedback on the new law. This is not expected to occur earlier than the fourth quarter of the fiscal year.

QAS will provide support to the Determination process by participating in second level review of Volume Submitter plans and providing instructors for various training classes. QAS will also support Determinations by participating on the teams formed to provide solutions to various identified problems.

## **GOALS and OBJECTIVES**

### **Business Results (Quality)**

Timeliness (cycle time) - The computation of cycle time is based on a 12-month "rolling average". **While various cycle time/timeliness objectives have been**

**established, it should be emphasized that cases should not be closed prematurely simply to adhere to a cycle time objective.**

- *Merit Closures* - the objective is 110 days from the control date to the closing of the application (EDS table 6b.1).
- *Merit Closures with Contact* – the objective is 163 days for cases closed with disposal code 09 (EDS table 6b.2)
- *Cases worked at the group level (status 75 or 52 to closing)* - this includes all non-merit closures (disposal codes 00, 01, 02), excluding those applications that were transferred to other Area Offices (EDS table 9.2). The national objective is 120 days.
- *All Cases* - the national objective for all cases closed (merit closures and cases worked at the group level) with a determination letter issued is 207 days (EDS table 8e.1).

The cycle time figures are based on “rolling averages” calculated using data from the prior 12 months. Since inventory was high at the beginning of FY 2005 due to the influx of cases during the GUST remedial amendment period, months with very high cycle time figures are included in the “rolling average” calculation. Since the GUST backlog has almost been eliminated, cycle time figures for recent months have dropped considerably and should continue at a much lower rate than reflected by the “rolling average” goals above. Rolling average cycle time goals are not goals for individual cases.

### **Business Results (Quantity)**

Determination cases closed will be used as the performance indicator. As a result of the concentrated focus on the GUST submissions and the utilization of resources to train the new hires for Examinations during FY05, there is a backlog of post-GUST applications. These applications will be the primary focus for the specialists not dedicated to the pre-approved plan program during FY06. The national objective is 22,200 cases.

### **Determination Receipts**

Receipts for FY06 are estimated to be 18,200. The projected figure is lower than previous years where typical receipts were considered 32,800. This lower figure is the direct result of the implementation of the staggered remedial amendment period. Submission of applications is now separated into cycles based on the applicant's taxpayer identification number. Cycle A opens February 1, 2006 and closes on January 31, 2007 for individual plan filers. A slight increase in Form 5300 receipts is anticipated in the fourth quarter of FY06.

### **Open Inventory**

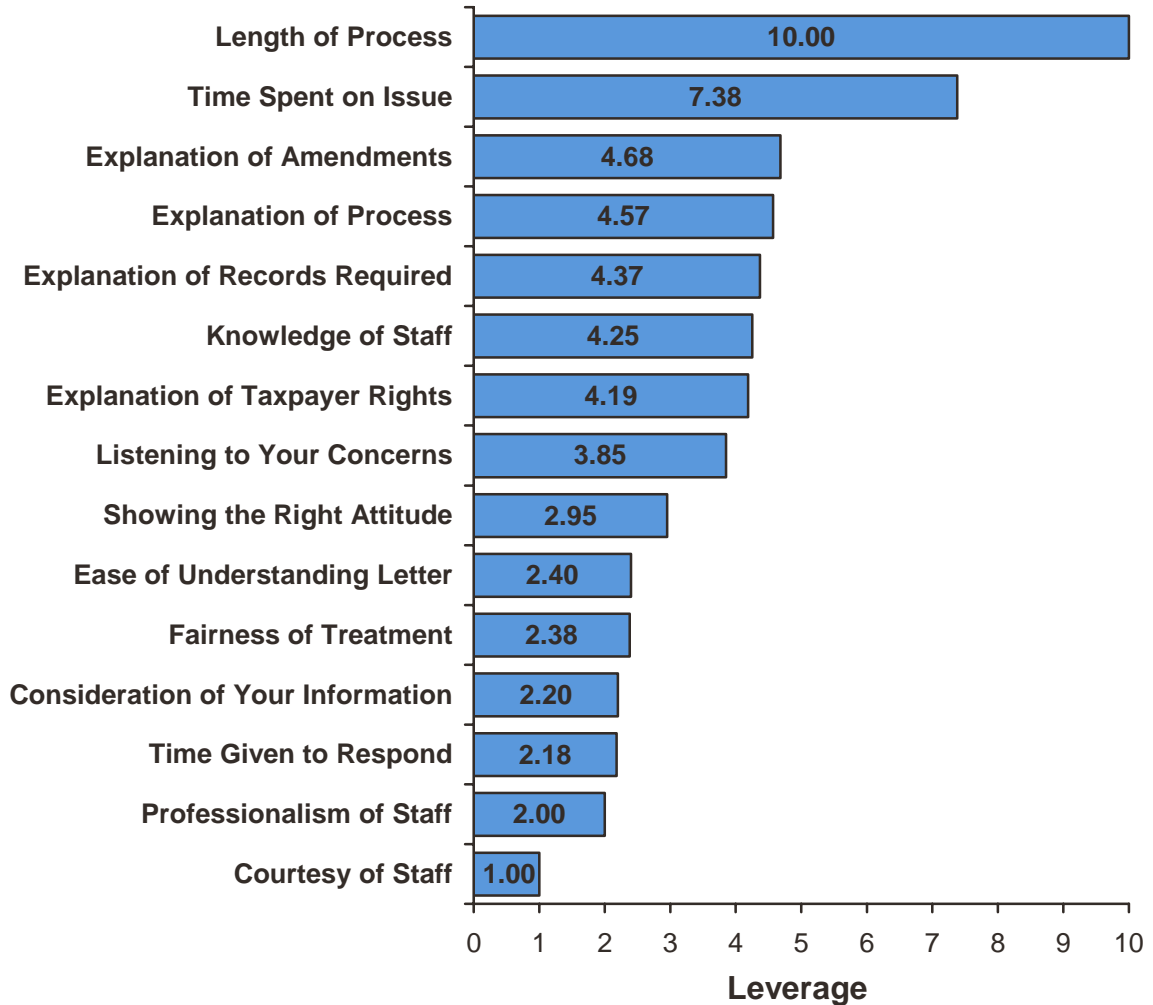
Open inventory at the beginning of FY06 is expected to be 10,400. This inventory will be a mixture of application types. Grade 11 cases that could possibly be closed in technical screening are being held for training purposes as Examination new hires complete Phase 1B.

### **Customer Satisfaction**

The March 2005 Customer Satisfaction ratings (the latest data available) for Determinations cases closed from October 2004 – March 2005, have decreased

approximately ten percent from prior ratings due to inventory backlogs. Only 61% of the respondents indicated they were satisfied with service provided, while 8% were dissatisfied. The results also provide information on “improvement priorities” for Determinations as shown by the following chart. The higher scores are those areas where the customer is less satisfied and/or the item is very important.

### Improvement Priorities for Determination Customers



The “*length of process*” category has been identified as the top-priority improvement opportunity. As previously discussed, the concentrated focus on the GUST submissions and the utilization of our resources to train the new hires for EP Examinations during FY05 resulted in a larger back-log of cases that originally anticipated. These applications will be our primary focus for the specialists not dedicated to the pre-approved plan program during FY06.

## **Summary of Performance Measures**

<b>Performance Measure</b>	<b>FY2005 Actual – as of 8/05</b>	<b>FY2006 Goal</b>
Timeliness (merit closures)	289	110
Timeliness (merit closures with contact)	311	163
Timeliness (cases worked at group level)	132	120
Timeliness (all cases)	322	207
Customer Satisfaction		
✓ Satisfied Customers (rating of a 6 or 7)	61%	67%
✓ Dissatisfied Customers (rating of a 1, 2 or 3)	8%	7%
Determination Quality (as of 8/05)	74.8%	77%
Determination Cases Closed	39,864	22,200
Determination Receipts	15,013	18,200
Open Inventory	10,400	6,400

## **VOLUNTARY COMPLIANCE**

### **Overview**

The Employee Plans Compliance Resolution System (EPCRS) provides a comprehensive system of correction programs that permit plan sponsors to correct failures in qualified plans, tax sheltered annuities, Simplified Employee Pension Plans and SIMPLE Individual Retirement Accounts, thereby providing plan participants with retirement benefits on a tax-favored basis. These correction programs provide EP maximum flexibility to respond appropriately to various compliance issues rather than revoking a plan/trust's qualified status. EPCRS has three components:

- Self-Correction Program (SCP);
- Voluntary Correction Program (VCP), and
- Audit Closing Agreement Program (Audit CAP).

EPCRS is described in detail in Rev. Proc. 2003-44, which can be found on the IRS Retirement Plans web page ([www.irs.gov/ep](http://www.irs.gov/ep)). Audit CAP and SCP are applied on cases under examination. The Voluntary Correction Program (VCP) is administered in the Voluntary Compliance (VC) component of Rulings and Agreements.

### **FY 05 Workload**

VC received 1,707 submissions during the first 11 months of FY 05, with projected total receipts for the year of 1,850. In addition to VCP submissions, VC's workload includes determination letter applications that are related to the program submissions, which total approximately 30% of the number of VC program submissions. VC is responding to this inventory challenge by taking several steps to improve case processing:

- Creating an application form for VCP submissions to simplify the application process;
- Issuance of an updated EPCRS revenue procedure, which contains several provisions that simplify case processing, e.g., mandating a specific order of materials in the submission;

- Creating a simplified "submission package," which will contain a condensed and simplified description of the application requirements from the EPCRS revenue procedure;
- Implementing the use of streamlined case processing procedures, including the use of "Streamlined" compliance statements, which incorporate by reference the plan sponsor's incoming submission;
- Using resources from Technical and Determinations to assist in reducing open case inventory;
- Providing correction guidance on the Intranet page;
- Eliminating the requirement that a determination application be submitted with a VCP submission under certain circumstances, and
- Streamlining case review procedures.

VC is also in the process of updating the EPCRS CD-ROM (Publication 4050). The CD contains several tools for navigating through the many available features of EPCRS such as:

- Frequently asked questions about available programs;
- Links to useful IRS forms and publications, and
- Information about the DOL and PBGC voluntary correction programs.

#### FY 06 Workload

Projected receipts for FY 06 are 1,700, with approximately 510 related determination applications. This projection is lower than FY 05 receipts due to an expected decrease in non-amender cases. During FY 06, VC will continue focusing on more efficient and timely processing of cases and will assist Examinations with consistent treatment of EPCRS cases. In support of these goals, VC will:

- Continue marketing the correction program's CD-ROM (Publication 4050);
- Continue to enhance the "Corrections" page on [www.irs.gov/ep](http://www.irs.gov/ep) to help educate customers about the responsibilities of plan sponsorship, proper maintenance of plans and correction of plan failures through EP's correction programs;
- Continue to update its Intranet page with correction guidance;
- Meet with Exam employees to discuss cross-functional issues; and
- Continue to provide monthly articles for the EP newsletter for Employers.

The implementation of streamlined case procedures outlined above will result in an increase in the number of closures and is expected to reduce the open inventory.

#### Summary of Performance Measures

The number of cases closed and the inventory level will be used as indicators of performance.

<b>Performance Measure</b>	<b>FY2005 8/05 Actual</b>	<b>FY2006 Goal</b>
Voluntary Compliance Cases Closed	1,352	1,800
Determination Cases Closed	531	510
Voluntary Compliance Receipts	1,707	1,700
Voluntary Compliance Open Inventory	2,679	2,579

## **TECHNICAL ACTIVITIES/RULINGS PROGRAM**

The Technical and Actuarial groups are responsible for:

- Issuing private letter rulings;
- Issuing responses to funding waiver requests;
- Issuing general information letters;
- Assisting agents in all areas by issuing technical advice on determination/examination cases;
- Providing technical quality assurance;
- Providing support for CE&O regarding questions and items for the EP website;
- Providing assistance to CAS with R-mail inquiries, and
- Assisting Voluntary Compliance with the processing of VCP submissions.

The processing of M&P plans has been shifted to Determinations, although Technical will retain responsibility for processing and reviewing IRA submissions.

Technical also provides actuarial support. Each Area Office has access to at least one actuary for technical guidance on complex examination and determination issues.

Specific areas of focus in FY 06 are:

- Private Letter Rulings and Technical Advice - Improving the processing of private letter rulings and technical advice cases. Reduce the number of overage cases and the cycle time for cases.
- Assistance to Voluntary Compliance - Provide continuing support to Voluntary Compliance by assisting with their case load.

## **Summary of Performance Measures**

<b>Performance Measure</b>	<b>FY2005 8/05 Actual</b>	<b>FY2006 Goal</b>
Technical Activities Closed	1,785	1,700
Receipts	1,982	1,700
Open Inventory	1,138	1,138

The receipts, activities closed, and inventory do not reflect the support being provided to Voluntary Compliance. However, the inability to reduce inventory further results from the time allocated to VC support, as well as the reduced staffing levels that Technical has experienced over the past few years.

## **TECHNICAL AND PROCEDURAL GUIDANCE**

Technical guidance is an integral part of an agent's/tax law specialist's tools for applying pension law and keeping abreast of frequent changes. The interpretation of law and development of Service procedures as they apply to the Determinations, Examinations and Voluntary Compliance programs is the optimal way to assure consistency. The availability of timely guidance not only promotes efficiency but also facilitates professionalism that enhances both employee satisfaction as well as customer satisfaction.

The objective of published guidance is providing assistance in procedural matters and providing timely and current technical guidance consistent with the annual Guidance Plan that is established in conjunction with the Office of Chief Counsel of the Service and the Office of Tax Policy of the Department of the Treasury. While a specific instance of published guidance generally is directed at one or more specific issues found in the Determination, Examination or VC program, other functions of the Service, such as the Office of the Associate Chief Counsel (Financial Institutions and Products) that have jurisdiction over different aspects of tax law that impact on pension law, also develop and/or implement published guidance.

The 2005-2006 Treasury/IRS Priority Guidance Plan includes several items of guidance involving tax avoidance issues, including abuses of nondiscrimination requirements to favor highly compensated employees or owners and continued guidance on potential abuses involving ESOPs that purchase S-Corps., i.e., final regulations under section 409(p) on prohibited allocations of securities in an S corporation. In addition to publishing routine and as needed procedural guidance, it is anticipated that during FY'06 final Income Tax Regulations will be issued under:

- Section 401 pertaining to certain aspects of phased retirement arrangements,
- Section 402A regarding Roth section 401(k) elective deferrals,
- Section 403(b) with respect to tax-sheltered annuities,
- Section 415 dealing with maximum benefit limitations, and
- Section 417 pertaining to the relative value of optional forms of benefit.

Moreover, it is anticipated that technical guidance in the form of revenue rulings, revenue procedures and notices will be issued under section 72 on the taxation of the distribution of designated Roth contributions, under section 414(q) on the definition of a highly compensated employee, and section 420 relating to the Medicare prescription drug subsidy. Finally, a notice will be issued on an updated list of FY2005 guidance items required to be addressed in determination letter requests and a revenue ruling will be issued that formally obsoletes various items.

### **Performance Measure**

<b>Performance Measure</b>	<b>FY2005 8/05 Actual</b>	<b>FY2006 Goal</b>
Guidance Documents Published	46	50

# ***Examination Program Guidance***

## **OVERVIEW**

Examinations will identify and correct non-compliance by meeting the following strategic goals:

- Conduct focused, efficient examinations;
- Resolve issues at the lowest possible level using appropriate resolution mechanisms;
- Ensure consistency and fairness in application of law;
- Maintain a high level of Customer Satisfaction;
- Coordinate with other TE/GE functions, other IRS functions, and other Federal Agencies to identify and resolve emerging areas of non-compliance;
- Improve the overall quality of examinations based on both TEQMS and Customer Satisfaction results, and
- Determine the compliance level of those customers involved with identified potentially abusive tax avoidance transactions.

## **GOALS and OBJECTIVES**

### **Business results (Quality)**

*Timeliness (cycle time)* - Cycle time is computed based on a 12-month “rolling average.” Cycle time is measured from the date the case is placed in AIMS status code 12 (assigned – taxpayer contacted) to the date it is closed (status code 90). AIMS Table 61 will be used to monitor cycle time accomplishments.

The national objective for FY 2006 is 183 days.

**NOTE: Managers and employees are encouraged to pursue potential issues and to resolve their cases in an appropriate manner. This includes the pursuit of closing agreements when appropriate. Managers and employees should not close a case prematurely, or with less than the proper level of scrutiny simply to meet a cycle time objective.**

*Examination Quality* – This score is determined during the TEQMS review process. The quality rate for the first 9 months of FY 05 was 85%. **Scores will continue to change until all sample cases for the period are reviewed.**

The FY 06 goal is to maintain the overall quality of the examinations while achieving an 85% quality rate.

In FY 05, EP Examinations supported the improvement process for the Standards *Workpapers/Reports* and *Timeliness* by:

- Focusing group managers on the quality of cases as part of their PMS commitments;
- Distributing a template of reminders listing the requirements for the Timeliness standard;
- Issuing “TEQMS At-a-Glance”, which highlights specific areas of each standard;



- Conducting group meetings during the first and second quarters to emphasize improving the Standards *Workpapers/Reports* and *Timeliness*;
- Developing sample workpapers, including audit techniques and proper documentation, to improve the quality of workpapers, and
- Conducting a one-year pilot program in the Northeast Area. Special Review provided feedback directly to examiners on cases selected for TEQMS. The goal was to provide technical and procedural guidance to improve the quality of examination cases. Overall, the examiners indicated that the feedback would improve the quality of their future examinations.

In FY 06, we plan to complete the following actions:

- Provide technical and procedural feedback on general program TEQMS cases to employees in all Areas as a result of the successful feedback pilot in Northeast during FY 05,
- Review and evaluate several Area initiatives on workpapers, and
- Revise training efforts to emphasize examination skills and techniques, including case write-ups, which will reduce case processing time.

TEQMS results are shared with Area Managers and published quarterly on the EP Examination Web page.

### **Business Results (Quantity)**

- *Performance Indicator* – This will be the number of returns closed. The FY 06 goal is 8,900 returns.

The following compliance programs will continue in FY 06:

- Abusive Tax Avoidance Transactions – Exam will continue expanding its examination of potentially abusive tax avoidance transactions. Currently there are two projects underway that will continue into FY 06: IRC 412(i) plans and S-Corp. ESOPs. Additionally, agents should be alert to potential new ATATs. If an agent discovers an issue that should be brought to the attention of management.
- IRC 403(b)/457 Plans – EP Examinations will audit plans of the following types of tax-exempt organizations:
  - ✓ Local school districts,
  - ✓ Public colleges and universities,
  - ✓ Public health care organizations,
  - ✓ Local governments, and
  - ✓ Other IRC 501(c) exempt organizations that maintain IRC 403(b), IRC 457(b) or IRC 457(f) plans.

Because FSLG and EO are also examining school districts, EP Examination personnel will continue to coordinate with FSLG and EO on these audits. This will ensure that EP Examinations will not select cases currently under examination or which have been recently examined by these other TE/GE functions.

A compliance planning team is developing an IRC 457 audit guide for the Internal Revenue Manual. It will be published in FY 2006.

- Multi-Employer Plans – In FY 2005, there were questions on the validity of the Multiemployer Plans listed on our RICS database. It was thought that there may have been entry errors on the Form 5500, regarding:
  - ✓ Whether the plan sponsor was a multiemployer and
  - ✓ Whether the sponsor had a Collectively Bargained Agreement.

Due to these concerns, a new Master List of 3,018 Multiemployer-sponsored plans was created by the MAP Compliance Planning Group. The list was divided into seven different levels, based on the number of participants.

In FY 2006, new cases will be selected from the Master List by the Area Managers. Also in FY 2006, three of our most Senior Agents will create a formal MAP Phase One training course and text.

In FY 2007, a specific long-term plan for case selection from the Master List will be created by the MAP Compliance Planning Group. The MAP Group also has created a four-year plan to staff the needed agents to carry out the long-term examination plan. Program findings will continue to generate baseline data, which will be used to develop long-term compliance strategies

- EPTA – Area Offices will continue to be involved in the EPTA program. A priority for the Areas will be to close out remaining transition inventory. New activity codes will be utilized to capture the time applied to EPTA MAP, EPTA 403(b) and EPTA 457 cases.

Area managers will maintain responsibility for their individual EPTA cases, coordination, and issue management. Area offices will continue to provide support to LMSB, EO, and FSLG through the referral process. EPTA training material will be revised to a ten-day course, in which all three of the current EPTA training classes will be combined. L&E will be working with the Areas to develop and formalize the material. A pilot class may be held in FY06. EP&R will provide program oversight and coordination for the selection of EPTA cases with LMSB, EO, and others.

- Focused Examination Program - The pilot program involving four groups from different Areas is finished. An analysis has been completed and the focused approach was proved to be efficient. The focused approach is an examination philosophy that starts with a few known issues. During the examination, the agent concentrates on a comprehensive pre-audit review, an evaluation of the employer's internal controls, and an in-depth initial interview. This manner of performing examinations is an effective means of improving compliance. The program will be rolled out nationally in FY2006. Training is planned for the first quarter of FY2006 so these techniques can be used throughout the fiscal year.
- Risk Assessment Program – This program is entering a new phase in FY 2006. Most of the baseline profiling of business sectors is complete, and EP Exams will begin audits of sectors that have been shown to have a high level of non-compliance.

- Examination Agent Hires – In June 2005, Examinations hired 50 new revenue agents. In FY 2006, these agents will complete their on-the-job determination training. They will then receive examination training and be assigned their first training returns for examination.

### **EPCU Compliance Contacts**

EPCU has identified four projects that will be worked in that unit in FY 2006. The four identified projects are:

- Funding Deficiencies;
- Funding Waivers;
- Form 5330 Compliance Checks, and
- EPCRS Compliance Checks.

Since EPCU reached its planned staffing levels in late FY 2005, EP Examinations anticipates that more projects will be started in FY 2006. More information on the EPCU is contained in the Operating Priorities section of the workplan.

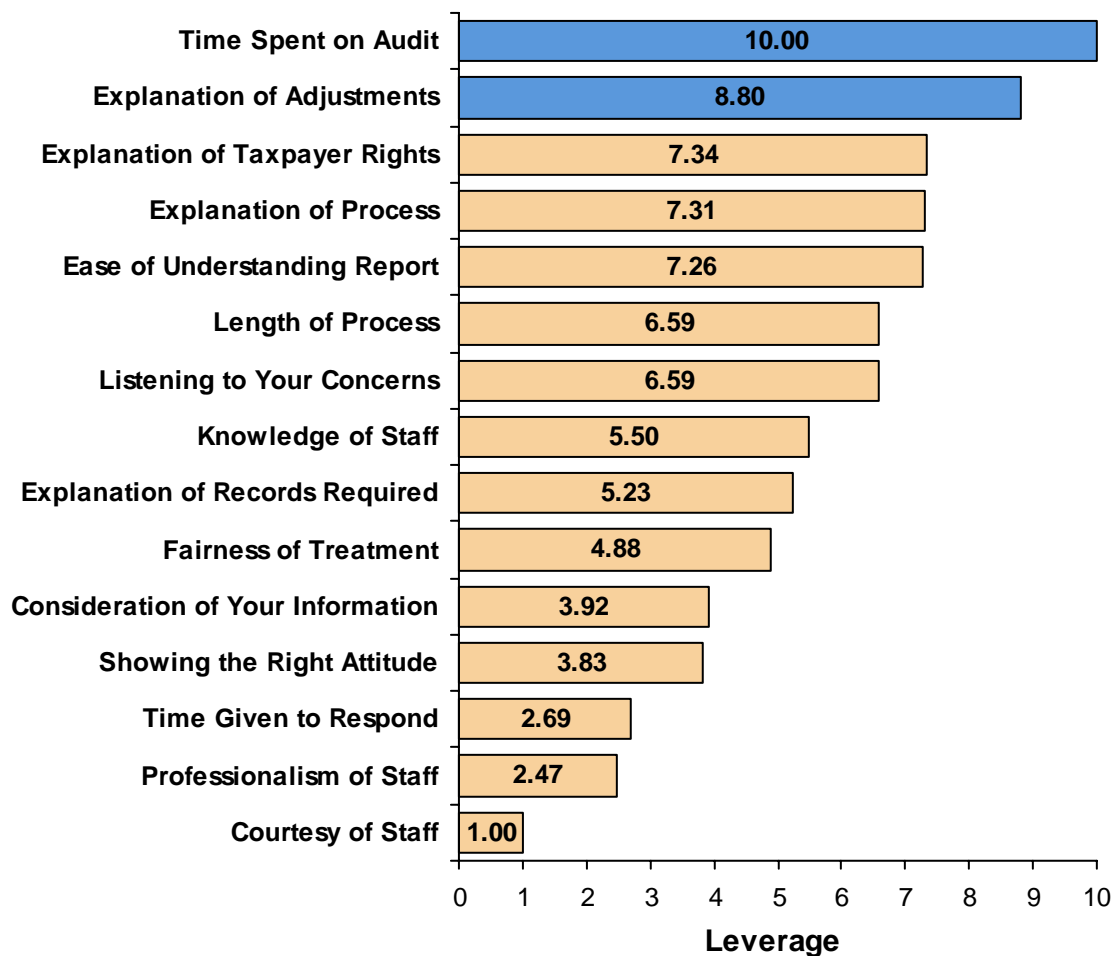
### **Customer Satisfaction**

#### **Improvement Priorities for Examination Customers**

The August 2005 Customer Satisfaction reports for cases closed from October 2004 through March 2005 (the latest data available) remain quite favorable. Of the respondents, 70% indicated they were satisfied with the service provided, while only 7% were dissatisfied. The rest were “neutral” in the rating of the quality of service provided. The overall rating was a score of 5.81 out of a possible score of 7.0.

The results also provide information on “improvement opportunities” for Examinations as shown by the following chart. The higher scores are those areas where the customer is less satisfied and/or the item is very important to them.

## Improvement Priorities for Examination Customers



## Customer Satisfaction Initiatives

In FY2005, Examination completed 32 customer satisfaction projects with global significance. We are currently working with internal and external stakeholders on a new customer satisfaction initiative involving all five Area Offices. This entails the development of an "Audit Efficiency Checklist" with tips for a more efficient and effective audit process, and resolution of any issues. The checklist will be available on the website and will be used by agents as a communication tool during examinations. This is expected to positively impact compliance, improve communication and reduce customer burden in the examination process.

The goal for FY 06 is to have 72% or greater satisfied customers, and 7% or fewer dissatisfied customers.

## **Summary of Performance Measures**

The following performance indicators will be used to assess the effectiveness of examination programs and activities:

<b>Performance Measures</b>	<b>FY2005 Actual – as of 8/05</b>	<b>FY2006 Goal</b>
Timeliness (cycle time)	202	183
Examination quality (June)	85%	85%
Examination cases closed	7,346	8,900
EPCU Compliance Contacts	145	2,000
Customer Satisfaction <sup>1</sup>		
Satisfied Customers (rating of a 6 or 7)	70%	72%
Dissatisfied Customers (rating of a 1,2 or 3)	7%	7%

<sup>1</sup> The FY 2005 column is based on the August 2005 report that covers the six-month period ending March 2005.

## **TE/GE Reporting and Electronic Examination System (TREES) Project**

TREES will provide a new tool for TE/GE examination personnel to "report" on in-process inventory, issues, market segment trends, examination results, and education and outreach activities. Progress in developing the TREES system continues and, during the first quarter, it is anticipated that a transition plan will be completed and new Governance structure implemented. SAT testing for Release 1, pilot planning procedures and development of training course material will also be completed. In the second quarter, a pilot will be initiated and feedback will be analyzed/incorporated. The national rollout of Release 1 will be initiated in third quarter and completed in fourth quarter.

## **Employee Satisfaction**

The FY 2006 Training Plan addresses the specialized training needs of new workforce members hired in June 2005, while also emphasizing the continued development of EP's entire workforce. Training has a direct impact on employee satisfaction and morale.

The EP Examination Training Advisory Council (TAC) utilized input from bargaining unit employees to enhance Examination Phase training in an effort to improve employee satisfaction. This revised approach is expected to enhance the training experience for the new hires. After completing their basic pension law training and an OJI period, they will proceed through two phases of EP Examination Phase classroom and on-the job training. They will learn to utilize specialized audit techniques, and workpaper preparation skills to address specific pension audit issues as they gain experience and proficiency.

Additional training activities planned for FY2006 include:

- The rollout of TREES to all examination Agents,
- Examination Phase VII advanced training; and
- Focused examination training.

### **Additional Examination Initiatives**

- Conduct examinations of new automatic selections, including referrals, claims, reversions, and determination conversions.
- Continue and complete the non-return unit SIMPLE IRA examination program and begin an employer-sponsored SEP-IRA examination program.
- Continue assisting personnel in the development of TREES, and provide resources to support and augment the CE&O programs.